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INTERNATIONAL HELIUM COMPANY LIMITED

ANNUAL REPORT

1967

International Helium Ltd.,

June 21, 1968

International Helium

International Helium Ltd. of Toronto had a loss of \$37,510, for the year ended Dec. 31, compared with a loss of \$226,224 for the year ended April 30, 1966. Oil and gas sales rose to \$543,894 from \$495,657.

The International Helium Company Limited

Suite 907, 11 King Street West, Toronto 1, Ontario

Officers

Louis Erlich, Chairman of the Board

C. H. van Brink, President

J. H. Hawke, Vice-President

Brian Sheedy, Secretary-Treasurer

Directors

Louis Erlich, Beverly Hills, California

J. A. Gairdner, Oakville, Ontario

J. S. Gairdner, Oakville, Ontario

J. H. Hawke, Toronto, Ontario

Salter A. Hayden, Q.C., Toronto, Ontario

C. H. van Brink, Toronto, Ontario

Douglas B. Newman, Toronto, Ontario

Graham C. Ferguson, Toronto, Ontario

Douglas G. Milne, Q.C., Toronto, Ontario

Auditors

Touche, Ross, Bailey & Smart, Toronto, Ontario

Transfer

Montreal Trust Company,
Toronto, Montreal, Winnipeg, Calgary and Vancouver

Head Office

Suite 907, 11 King Street West, Toronto 1, Ontario

Note

Incorporated in Ontario, Canada, May 26, 1960 as "International Helium Corporation Limited", the name was changed, September 8, 1961 to "The International Helium Company Limited".

Originally registered to operate in the Province of Saskatchewan where the company's helium operations are located, the company is now qualified to carry on business elsewhere.

Report of the Directors

To the Shareholders:

Your management is pleased to submit the financial statement of your Company for the year 1967.

Mexico

In Mexico, Azufres Nacionales Mexicanos, S.A. de C.V., the company formed in the year under review, has continued its exploration activities on the Texistepec Dome in the State of Veracruz.

A total of 20 holes was drilled between August, 1967, and the end of that year. As reported previously to shareholders, the total of drill proven reserves at that time stood at 3 million long tons. Since then, the results of further drilling have shown a continuation of the deposit of sulphur which was not indicated previously. We are pleased to report that our consultants, DeGolyer and MacNaughton Inc., and the geologist of the Mexican Government, concur in a very much improved figure of reserves and now confirm drill proven reserves of 6,160,000 long tons. DeGolyer and MacNaughton Inc., giving this figure in their latest report dated May 2, 1968, estimate that, of these proven reserves, 70% will be recoverable. They also state that drill proven reserves means a body of ore so extensively sampled that the risk of failure in continuity of the ore in such body is reduced to a minimum. Exploration work is continuing.

The Company is in the process of having a feasibility study drawn up, taking into consideration the very much improved reserves. Under the rules laid down by the Mexican Government for the exploitation of sulphur reserves in that country, an annual export quota is determined at 5% of the total known reserves at the time the quota is determined. Thereafter such quota then may be increased by an amount equal to 5% of any additional reserves established subsequent to that date. Taking into consideration a quantity to supply the local market, it is now planned to build a plant rated at 1,000 metric tons of sulphur per day. The feasibility and financial study will be presented to the Board of the Mexican company shortly and it is expected that when these studies are accepted, the project to build a 4 million gallon Frasch plant will be approved and started in the second half of 1968.

Some time ago, the sulphur stockpile of 9,000 tons was sold, as is, where is, resulting in net proceeds of \$305,000. These proceeds will be used specifically for the financing of our operations in Mexico.

Although the base metal properties at Mapimi appeared very interesting after initial surveys, the drilling results to date have proved unsatisfactory. While development in this area has been suspended for the time being, further geological work has been recommended and it is intended to keep the property in good standing.

Helium

The Company has secured a guaranteed supply of water at the rate of 10,000 gallons per day for the proposed helium plant and, in addition, plant designs have been completed.

The
International
Helium
Company Limited

As previously stated, the management has been focusing its attention and financial capacity on its sulphur properties in Mexico and Guatemala, but has not lost sight of the fact that the Company has a very important reserve of helium. Final development including plant construction, will be dependent on additional finances becoming available. Meanwhile, it is expected that world-wide markets for helium gas should continue to develop, thereby enhancing the value of these reserves.

Oil Operations — U.S.A. and Canada

In 1968, some of the oil wells in our East Texas and Louisiana field, which were wholly and partly owned by your Company, were expropriated by the Sabine River Authority, as the area in which these wells were placed was to be flooded. The compensation offered was a reasonable and fair one and, as a consequence, four wells were sold and the bulk of the proceeds was applied to our bank loan in New York.

In Western Canada, some improvements in production have taken place which have increased our revenue by over 15%. The overall results should leave us with a debt-free position in Alberta by 1970.

Guatemala

We are pleased to report that Mr. Charles Bickford has been appointed as General Manager of Azufres de Guatemala Limitada. Mr. Bickford is a Guatemalteco familiar with Guatemalan law and accounting practices. Azufres de Guatemala Ltda., in which we hold a 50% interest, has had its name changed to International Helium de Guatemala y Compania Limitada.

As previously reported, the flotation and refinery techniques originally selected were found to be impractical for use on this particular type of ore, so that future plans are dependent on an alternative process being developed. Considerable cost was incurred although, as indicated previously, much of the facilities established at Lake Ixpaco can be used in connection with the new process. There are a number of new solvent extraction processes presently being tested and we are now negotiating to acquire rights to one which seems admirably suited to treat our ore reserves at Ixpaco.

General

The world shortage and increase in the price of sulphur remain the strong incentive for your management, whom we feel is well augmented by association with well qualified geological and engineering firms. Negotiations are being carried on with the idea of setting up processing plants as soon as possible.

We wish to thank you for your co-operation and respectfully request your continued support in the years ahead.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read 'C. H. van Brink', with a long, sweeping horizontal line extending to the right.

C. H. van BRINK,
President.

June 5, 1968.

The International Helium Company Limited

(Incorporated under the laws of the Province of Ontario)

and its Subsidiaries

Consolidated Balance Sheet

(with comparative figures for 1966)

Assets		1967	1966
Current			
Cash	\$	526,703	\$ 97,466
Subscriptions receivable, 7% debentures, including accrued interest		—	3,026,466
Accounts receivable		112,206	152,840
Due from directors and officers		30,729	—
Deposits and prepaid expenses		20,274	24,732
		<u>689,912</u>	<u>3,301,504</u>
Investment in Apache Oil and Helium Corporation (note 1)			
Share capital		—	1,000,000
Advances		—	10,818
		<u>—</u>	<u>1,010,818</u>
Investments in Mexico and Guatemala (note 2)			
Share capital		6,650,026	5,292,448
Notes and advances receivable		3,210,072	318,522
Loans receivable		—	1,002,325
Exploration and development expenses		133,608	226,335
		<u>9,993,706</u>	<u>6,839,630</u>
Helium leases under development (note 3)		<u>1,094,693</u>	<u>972,716</u>
Mining claims		—	9,000
Oil and gas leases under development (note 4)		<u>1,931,043</u>	<u>1,948,043</u>
Fixed			
Leasehold interests, well costs and well equipment (note 5)		3,404,575	2,031,506
Furniture and fixtures, at cost		19,432	21,781
		<u>3,424,007</u>	<u>2,053,287</u>
Less accumulated depletion and depreciation		<u>1,012,068</u>	<u>734,787</u>
		<u>2,411,939</u>	<u>1,318,500</u>
Deferred			
Development and other expenditures		2,176,484	1,516,887
Discount on debentures, less amortization		104,955	118,497
Long-term debt costs, less amortization		228,613	263,439
		<u>2,510,052</u>	<u>1,898,823</u>
		<u>\$18,631,345</u>	<u>\$17,299,034</u>

The accompanying notes are an integral part of these financial statements.

Auditors

The Shareholders,
The International Helium Company Limited.

We have examined the consolidated balance sheet of The International Helium Company Limited and its subsidiary companies as at December 31, 1967 and the consolidated statements of income and deficit, deferred development and other expenditures and source and application of funds for the year then ended. For The International Helium Company Limited, our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to the subsidiary companies for which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for

Toronto, Ontario,
May 30, 1968.

um Company Limited

orporations Act — Ontario)

ry Companies

s at December 31, 1967

gures for 1966)

Liabilities		1967	1966
Current			
Accounts payable and accrued liabilities	\$	649,802	\$ 1,640,547
Bank production loans, secured, current portion (note 8)		149,237	252,000
U.S. income taxes payable		212,760	—
Current portion of long-term notes		63,500	—
Loans from shareholders, secured (note 6)		1,731,240	—
Notes payable, 7%		—	697,811
		<u>2,806,539</u>	<u>2,590,358</u>
Long-term debt			
Notes payable for equipment purchases		31,750	—
Loans from shareholders and their associated companies (note 7)		863,325	—
Bank production loans, secured (note 8)		633,582	822,383
6% sinking fund debentures, due October 1, 1975 (note 9)		1,280,000	1,280,000
7% convertible subordinated debentures, due November 15, 1973 (note 10)		3,000,000	3,000,000
		<u>5,808,657</u>	<u>5,102,383</u>
Minority shareholders' interest in Apache Oil and Helium Corporation		<u>614,052</u>	<u>—</u>
Shareholders' Equity			
Capital stock			
Authorized			
12,000,000 shares without par value			
Issued and fully paid	Shares		
For assets including helium agreements, mining claims and sulphur properties	8,583,228	10,774,192	10,774,192
For cash	1,264,027	1,578,668	1,578,668
	<u>9,847,255</u>	<u>12,352,860</u>	<u>12,352,860</u>
Deficit		(3,078,763)	(2,874,567)
Contributed surplus (note 11)		128,000	128,000
		<u>9,402,097</u>	<u>9,606,293</u>
Approved by the Board,			
C. H. van BRINK, Director.			
J. H. HAWKE, Director.		<u>\$18,631,345</u>	<u>\$17,299,034</u>

gral part of these financial statements.

Report

purposes of consolidation the reports of the other auditors.

In our opinion, subject to the collectability of the notes and advances receivable from and on behalf of Azufres de Guatemala Limitada amounting to \$2,726,814 which are dependent on the formal transfer of the sulphur mining concessions as indicated in Note 2 to these financial statements, these statements present fairly the consolidated financial position of the companies as at December 31, 1967 and the results of their operations and source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants.

Consolidated Statements of Income and Deficit

For the year ended December 31, 1967

Income

Oil and gas sales		\$ 543,894
Lease operating expenses:		
Production expenses	\$ 92,127	
Royalties	34,665	
Interest on bank production loans	65,523	
	<u>192,315</u>	
General overhead expenses	63,631	
		<u>255,946</u>
Income from production before the undernoted charges		287,948
Depreciation and depletion	240,955	
Amortization of long-term loan costs	10,698	
Provision for U.S. income taxes	48,600	
Provision for minority shareholders' interest in income of Apache Oil and Helium Corporation	25,205	
		<u>325,458</u>
Net loss for the period		<u><u>\$ 37,510</u></u>

Deficit

Balance, January 1, 1967		\$2,874,567
Deduct:		
Income from prior years' operations of Apache Oil and Helium after providing for depreciation, U.S. income taxes, and minority shareholders' interest (note 1) ..		72,752
		<u>2,801,815</u>
Add:		
Loss on sale of oil well equipment and lease costs written- off	\$ 100,550	
Claims and development expenditures written-off	138,888	
Net loss for the period	37,510	
		<u>276,948</u>
Balance, December 31, 1967		<u><u>\$3,078,763</u></u>

The
International
Helium
Company Limited

Consolidated Statement of Deferred Development and Other Expenditures

For the year ended December 31, 1967

	Balance December 31, 1966	Expenditures During the Year	Balance December 31, 1967
Development			
Helium leases, Saskatchewan:			
Geological reports and fees	\$ 123,282	\$ (13,204)	\$ 110,078
Engineering fees	54,491	—	54,491
Lease rentals	140,743	15,481	156,224
Well development	183,122	—	183,122
Licences and miscellaneous	6,666	—	6,666
	508,304	2,277	510,581
Less cost of dry holes written-off to deficit	145,231	—	145,231
	363,073	2,277	365,350
Mining claims, Timmins, Ontario:			
Claim staking	4,655	—	4,655
Geological reports and fees	1,605	—	1,605
Miscellaneous	220	163	383
	6,480	163	6,643
Less expenses written-off to deficit for abandoned claims	—	6,643	6,643
	6,480	(6,480)	—
Oil and gas leases, United States:			
Well development	10,632	6,129	16,761
Engineering fees	29,946	—	29,946
Production expenses	10,295	5,924	16,219
Depreciation and depletion	27,851	16,999	44,850
	78,724	29,052	107,776
Less oil and gas sales	19,964	21,683	41,647
	58,760	7,369	66,129
Administration and other			
Salaries	174,275	140,256	314,531
Professional services	140,086	21,561	161,647
Travelling	181,907	96,431	278,338
Office and accounting (including depreciation of \$1,694 for 1967)	260,941	51,168	312,109
Printing and advertising	51,382	7,284	58,666
Management, stock transfer and listing fees	55,560	26,842	82,402
Interest and other financial expense	151,595	83,733	235,328
Debenture interest	122,414	286,800	409,214
Amortization of debenture discount	16,928	13,542	30,470
Amortization of debenture financing expense	46,871	24,128	70,999
	1,201,959	751,745	1,953,704
Less interest income	113,385	95,314	208,699
	1,088,574	656,431	1,745,005
Total deferred development and other expenditures	\$1,516,887	\$ 659,597	\$2,176,484

The
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Company Limited

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1967

Source of Funds

From operations

Charges to operations not requiring use of funds:

Depreciation and depletion	\$ 240,955
Amortization of long-term loan costs	10,698
Minority shareholders' interest	25,205
	<u>276,858</u>
Less net loss for the year	<u>37,510</u>

\$ 239,348

Net income from prior years' helium operations (Apache Oil & Helium Corp.) 72,752

Add amounts charged not requiring an outlay of funds:

Depletion	114,534
Minority shareholders' interest	<u>101,713</u>

288,999

Proceeds on sale of equipment 33,346

Loans from shareholders 863,325

From working capital 2,827,773

\$4,252,791

Application of Funds

Advances to Mexico and Guatemala:

Azufres de Guatemala Limitada	\$ 868,702
On behalf of Azufres de Guatemala Limitada	1,534,887
Azufres Nacionales Mexicanos, S.A. de C.V.	456,211
Azufres Anahuac, S.A.	150,404
Operadora Anahuac, S.A.	<u>115,177</u>

\$3,125,381

Exploration and development expenses, Mexico, net of amounts written-off 30,518

Investment in shares of La Compania Minera 'La Ninita' 62,672

Investment in Azufres de Guatemala Limitada 27,000

Purchase of equipment:

Office equipment	13,464
Helium plant design	<u>121,977</u>

135,441

Repayment of bank production loans (deferred portion) ... 188,801

Net payment on settlement of Apache litigation 73,968

Deferred development expenses 659,597

Less amounts not requiring an outlay of funds:

Depreciation and depletion	\$ 18,693
Amortization of discount on debentures	13,542
Amortization of financial expenses	24,128
Deferred development expenses on claims abandoned and written-off	(6,643)
Sundry	<u>867</u>

50,587

609,010

\$4,252,791

December 31,
1966

December 31,
1967

Decrease

Working Capital

Current assets	\$3,301,504	\$ 689,912	
Current liabilities	<u>2,590,358</u>	<u>2,806,539</u>	
	<u>\$ 711,146</u>	<u>(\$2,116,627)</u>	<u>\$2,827,773</u>

The
International
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The International Helium Company Limited

Explanatory Notes to Consolidated Financial Statements

December 31, 1967

1. Principles of Consolidation and Accounting

The consolidated financial statements include the accounts of the company, its wholly-owned subsidiary companies, International Helium Inc., and Nevada Oil and Helium Co.; and its 51.5% owned subsidiary, Apache Oil and Helium Corporation.

During the year Apache Oil and Helium Corporation satisfactorily determined the interpretation of the net profit agreement relating to its lease interests and has recorded the income accruing therefrom. The company acquired its interest in Apache on the issuance of 1,000,000 shares of capital stock to which a value of \$1.00 per share was attributed. The difference between the value attributed to the shares issued and the value of the company's share of the equity acquired, amounting to \$483,820 has been charged to the helium lease interests in Arizona. This difference is being amortized over the life of the helium reserves. As a result, additional depletion expense of \$35,253 and \$10,272 has been charged to income from prior years and to current operations respectively. Provision has been made in these statements for the interest of minority shareholders of Apache to the full extent of their equity in shares and earnings.

The net income of \$72,752 from prior years' operations of Apache has been credited to the consolidated deficit account, calculated as follows:—

Income from 25% net profit interest in helium leases for the period 1961 to 1966	\$ 510,795
Deduct: Depletion expense	\$ 79,281
Legal and accounting fees	57,636
Provision for U.S. income taxes	164,160
	<u>301,077</u>
Income from prior years	209,718
Provision for interest of minority shareholders	101,713
Additional depletion on consolidation	35,253
	<u>136,966</u>
Net income from prior years' helium operations	<u>\$ 72,752</u>

The accounts of Apache, which are significant to the group, were not included in the 1966 consolidated financial statements because of litigation which was pending at that time. As a result, the 1967 consolidated statements of income, deficit and source and application of funds have not been presented in a comparative form.

Oil and gas production and related expenses of The International Helium Company Limited, Canada, International Helium Inc. and Apache Oil and Helium Cor-

poration in the United States are reflected in the consolidated statements of income. The helium activities of The International Helium Company Limited and the oil and gas activities of Nevada Oil and Helium Co. are still in the development stages and are reflected in the consolidated statement of deferred development and other expenditures. This latter statement also includes the portion of administrative expenses incurred by The International Helium Company Limited relative to its sulphur interests in Mexico and Guatemala.

Accounts maintained in foreign currencies have been converted to Canadian funds at the following rates of exchange:—

Mexico — 1 peso = \$.08 (U.S.)
 Guatemala — 1 quetzal = \$1.00 (U.S.)
 United States — \$1.00 = \$1.08 Canadian

Under present Guatemalan exchange control regulations, loan repayments out of profits are restricted to 15% per annum of the total investment for five years within any decade and 5% per annum for an additional five year period.

2. Investments in Mexico and Guatemala, \$9,993,706

Share capital, \$6,650,026

Share capital is represented by the following:

	Number of Shares 1967	1966
Mexico		
Azufres Nacionales Mexicanos, S.A. de C.V., class B shares of 1,000 pesos each par value, fully paid	10,200	—
Operadora Anahuac, S.A., class B shares of 25,000 pesos each par value, 50% paid	340	340
Azufres Anahuac, S.A., class B shares of 1,000 pesos each, 25% paid	—	6,800
Compania Minera 'La Ninita', class B shares of 100 pesos par value each	6,125	—
Guatemala		
Azufres de Guatemala Limitada, 50% share of 50,000 quetzales capital acquired during 1967		

The value attributed to these shares is represented by the following:

	1967	1966
3,282,418 shares of the company, to which a value of \$1.50 each was attributed, issued for interests in and rights to sulphur properties and shares of Azufres Anahuac, S.A.	\$4,923,627	\$4,923,627
Purchase of 340 class B shares of Operadora Anahuac, S.A.	—	368,821
Cost of re-organization	1,636,727	—
Purchase of 6,125 shares of Compania Minera 'La Ninita'	62,672	—
Purchase of 50% interest in Azufres de Guatemala Limitada	27,000	—
	<u>\$6,650,026</u>	<u>\$5,292,448</u>

June 30, 1968	\$ 130,000
June 30, 1969	120,000
June 30, 1970	120,000
June 30, 1971	135,000
June 30, 1972	132,868
	<u>\$ 637,868</u>

9. 6% Sinking Fund Debentures
Due October 1, 1975, \$1,280,000

The debentures are secured by a floating charge on all the assets of the company subject to prior security of the bank production loans and the loans referred to in Note 6, are redeemable at par value, and may be called before maturity.

Under the terms of the trust indenture, the company is required to establish a sinking fund equal to 5% of the original outstanding aggregate principal amount of the debentures on or before October 1 in each of the years, 1969 and 1970, and 10% of the aggregate principal amount of the debentures on or before October 1 in each of the years, 1971 to 1974 inclusive.

10. 7% Convertible Subordinated Debentures
Due November 15, 1973, \$3,000,000

These debentures are secured by a floating charge on all the assets of the company, such security being subordinated to prior security granted for the bank production loans, the loans referred to in Note 6, and the 6% sinking fund debentures. They are redeemable at par and may be called before maturity.

The holders of the debentures, at their option, have the right to convert them, at any time prior to the close of business on November 14, 1973, into fully paid non-assessable common shares of the company by applying the principal amount of the debenture to the purchase of common shares at the following conversion prices:

- \$3.00 per common share if converted on or before November 15, 1969
- \$3.50 per common share if converted after November 15, 1969, and on or before November 15, 1971
- \$4.00 per common share if converted after November 15, 1971, and on or before November 14, 1973.

11. Contributed Surplus, \$128,000

Contributed surplus represents the value attributed to 256,000 donated shares received by the company. These shares were distributed in accordance with the terms of a rights offering relating to the 6% sinking fund

debentures due October 1, 1975, and the balance remained unchanged during the period.

12. Salaries Paid to Directors and Senior Officers

Included in the Consolidated Statement of Deferred Development and Other Expenditures under the heading of Administration and Other are salaries of \$123,858 paid to the senior officers of the company. No remuneration was paid to directors as such.

13. Contingent Liability

The company is a party to a lawsuit involving a claim by a firm of consulting and professional engineers for approximately \$394,000 in respect to a balance of moneys for services rendered and for approximately \$485,000 in respect to premature termination of the contract for said services. The company admits that some services were rendered but is disputing the amount claimed and is denying any damages for termination of the contract.

The company has entered a counterclaim for an accounting of the retainer of approximately \$256,000 which it supplied the plaintiff plus damages aggregating approximately \$700,000. The damages are in respect to the cost of the Motosi sulphur concentrator and refinery installed in Guatemala.

No steps have been taken in the action other than the serving of the writ and delivery of the claim and the filing and service of the company's defence and counterclaim. At this point the company's counsel is unable to assess the amount of direct or indirect benefit or liability arising from the action.

14. Commitment

Under an agreement with Azufres Nacionales Mexicanos, S.A. de C.V., International Helium is committed to provide an additional \$842,400 for operational capital upon request from the Board of Administration of that company. It has also been agreed that International Helium will arrange financing on normal commercial terms for a sulphur extraction plant to be approved by the Board of Administration.

15. Stock Options

Under the terms of his employment, the President of the company has an option to purchase 200,000 shares of International Helium at \$3.00 each, exercisable in equal amounts of 40,000 shares over a period of five years commencing in 1967.

On April 4, 1968, the company granted Mr. V. V. Jacomini, an engineer and an expert in sulphur mining, an option to purchase 100,000 shares of International Helium at \$2.00 each, exercisable in whole or in part for a period of five years commencing in 1968.

